

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of )  
Unbundling of Local Exchange ) RM-8614  
Carrier Common Line Facilities )

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Comments of McLeod Telemanagement, Inc.  
In Support of Petition for Rulemaking

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McLeod TeleManagement, Inc. ("McLeod"), by its undersigned counsel, hereby submits its comments in support of the Petition for Rulemaking filed with the Commission by MFS Communications Company, Inc. ("MFS") on March 7, 1995. McLeod is a young, relatively small competitive carrier<sup>1</sup> providing local and long distance telecommunications services to business customers in Illinois and Iowa. In particular, McLeod provides service principally to customers located in the smaller cities and towns of rural America, which are traditionally underserved by carriers other than the incumbent local exchange carrier ("LEC"). It currently provides local service in 16 cities in Iowa and nine cities in Illinois.

McLeod aggregates services and facilities provided by LECs and interexchange carriers and provides its customers with enhanced telecommunications and telemanagement services, including a single point of contact for all of a customer's telecommunications needs. As an aggregator of telecommunications services, McLeod competes with U S West and Ameritech. In addition, McLeod recently petitioned the Iowa Utilities Board for authority, on a pilot test basis, to design, construct and operate a fiber-

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<sup>1</sup> McLeod, founded in 1993, currently has slightly more than 280 employees.

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optics based local communications network, including a state-of-the-art switching center, in the Cedar Rapids, Iowa market.

McLeod noted in the Iowa proceeding that if authorized, it would be providing the first competition to U S West for the provision of facilities-based local telephone service in Iowa. Clark E. McLeod, Chairman and CEO, testified that he believed that such competition would benefit the public because it would: (1) drive down prices, as it did in long distance telephony; (2) accelerate the exploitation of existing technologies and the development of new technologies; and (3) greatly improve service to the consumer. These same benefits of competition can be provided to the public throughout the United States.

One of the key issues raised by McLeod's application in Iowa is unbundling of the local loop. McLeod made it clear in its testimony that unbundling of the local loop is an important precondition for the development of effective competition, and that local service competition will not thrive until unbundling occurs. McLeod seeks to serve residential as well as business customers in both small and medium-sized cities, but it is economically infeasible for McLeod to replicate U S West's ubiquitous network to serve an area with a relatively low customer density. If those customers are to receive the benefits of competition, it can only be as a result of the action of the state and federal regulatory commissions to require the incumbent carriers to unbundle their local loops and offer them to new entrants at reasonable, cost-based rates.

The response of U S West to McLeod's Iowa unbundling proposal was twofold: First, U S West argued that that use of its facilities was not a necessary precondition to effective competition. Second, U S West sought to impose upon McLeod such excessively high

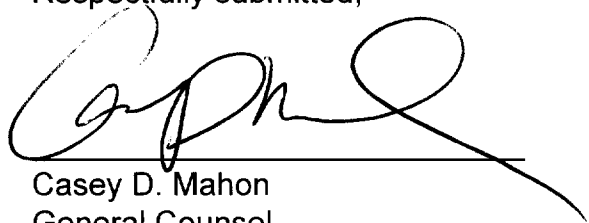
rates for unbundled facilities as to make it impossible for McLeod to compete with U S West. McLeod, of course, contested these positions in its Iowa proceeding. On March 31, 1995, the Iowa Utilities Board granted McLeod's application and declared that unbundling of U S West's local loop "is necessary for competition in the local exchange" because new entrants "are not going to be able to provide loops to all customers. Resale of unbundled facilities is the appropriate answer." While the Board found that the record did not provide a basis for setting a rate, it required U S West to file cost-based tariffs, based upon embedded long-run incremental cost, establishing a flat monthly rate for unbundled local loops. *In re: McLeod Telemanagement, Inc.*, TCU-94-4 (Iowa Utilities Board, March 31, 1995).

Contrary to the arguments of U S West, cable and PCS do not offer a viable means of competing with the dominant carrier in the near future. Cellular radio systems simply do not have the channel capacity to substitute for fixed location local exchange service. Indeed, U S West's witnesses in Iowa could not identify a single provider that could offer McLeod alternative facilities having the same ubiquitous reach of the U S West network. Nor is immediate construction of its own ubiquitous network to service residential or low density business customers a feasible alternative for a new entrant. And while U S West pointed out that McLeod could purchase a private line from U S West and resell it to the consumer, its charge to McLeod for that private line (without dial tone) was four times the rate it was charging the residential customer for a line with dial tone.

McLeod's experience in Iowa shows that FCC leadership is needed on a national level to prevent dominant carriers from warding off local competition by imposing the

spectre of a long and costly proceeding necessary to achieve unbundling. FCC action along the lines requested by MFS is also needed because the local loop is in part used to carry interstate calls and only the FCC can set the rate for the interstate component of an unbundled loop. McLeod respectfully requests that the FCC move expeditiously to adopt rules requiring unbundling as requested by MFS.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Casey D. Mahon', is written over a horizontal line.

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**CERTIFICATE OF SERVICE**

I hereby certify that on this 10th day of April 1995, copies of Comments of McLeod Telemanagement, Inc. In Support of Petition For Rulemaking were served by hand on the following:

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